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FM AMEMBASSY CARACAS  
TO RUEHC/SECSTATE WASHDC 7470  
INFO RUEHHH/OPEC COLLECTIVE  
RUEHAC/AMEMBASSY ASUNCION 0750  
RUEHBO/AMEMBASSY BOGOTA 7183  
RUEHBR/AMEMBASSY BRASILIA 5849  
RUEHBU/AMEMBASSY BUENOS AIRES 1542  
RUEHLP/AMEMBASSY LA PAZ 2436  
RUEHPE/AMEMBASSY LIMA 0696  
RUEHSP/AMEMBASSY PORT OF SPAIN 3315  
RUEHQT/AMEMBASSY QUITO 2527  
RUEHSG/AMEMBASSY SANTIAGO 3853  
RUEHDG/AMEMBASSY SANTO DOMINGO 0362  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
RHEHAAA/WHITEHOUSE WASHDC  
RHEBAAA/DEPT OF ENERGY  
RUCNDT/USMISSION USUN NEW YORK 0702  
RUCPDO/DEPT OF COMMERCE  
RUEATRS/DEPT OF TREASURY  
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000066

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD  
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017  
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)  
SUBJECT: BRV CONTINUES PRESSURING OIL COMPANIES

REF: A. 2006 CARACAS 03529  
[1](#)B. 2006 CARACAS 03558  
[1](#)C. CARACAS 59  
[1](#)D. CARACAS 38

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: The BRV ordered strategic associations to cut production in order to meet OPEC cuts. The order violates the associations' contracts. Continued rhetoric about nationalization raises questions about the development of the Faja. END SUMMARY.

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ADDING INSULT TO INJURY  
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[1](#)2. (C) ConocoPhillips and ExxonMobil executives told Petroleum Attache (Petatt) that they received via fax a letter from the Energy Ministry dated January 8 instructing them to cut production at their respective strategic associations in order to meet OPEC cuts. (NOTE: Conoco operates the Petrozuata and Hamaca strategic associations. Exxon operates the Cerro Negro association. Chevron is partners with Conoco in Hamaca. END NOTE) The associations were required to cut production in November but raised production to normal levels in December (Reftel A). The current cuts are based on September 2006 production levels. It appears the cuts are over 17 percent of production levels.

[1](#)3. (C) The production cuts are a clear violation of the strategic associations' contracts. As reported in Reftel B, the Hamaca contract states that production cuts to meet OPEC quotas must be based on forecast production and must be spread equally among all companies. As was the case in November, PDVSA does not appear to be cutting production at all. A Conoco executive told Petatt on January 9 that the Petrozuata contract clearly states the association is not subject to production cuts to meet OPEC quotas.

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FUTURE INVESTMENT IN THE FAJA  
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14. (C) The Conoco executive stated he no longer believes that oil companies have any incentive in investing in new extra heavy crude oil projects in the Faja region. According to the executive, the current royalty and tax structure render any new projects unprofitable. In addition, the executive stated the geological makeup of the Faja is such that the four existing associations are producing oil from the region's optimal areas. Any new projects will face reservoirs that do not have the same favorable geological characteristics. As a result, they will require significant amounts of additional investment in order to reach equivalent levels of production. The executive opined that he does not believe the BRV is aware of this.

15. (C) COMMENT: Given President Chavez's vague threat on January 8 that he will nationalize the current strategic associations (Reftel C) as well as additional, widely reported comments by Finance Minister Rodrigo Cabezas on January 11, we find it difficult to believe that international or national oil companies will be willing to invest in new Faja projects this year. The current legal and operating environment simply does not favor investing in new projects, despite the relatively high price of oil. (NOTE: Cabezas stated the BRV could nationalize the strategic associations if migration negotiations failed. END NOTE) Although Chavez and other senior BRV officials have repeatedly hinted that national oil companies will be offered lucrative Faja deals in the near future, the recent decision to halt the production of Orimulsion despite CNPC's

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significant investment in the project clearly shows that national oil companies are subject to the BRV's vagaries just as much as anyone else (Reftel D).

WHITAKER